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Peru

Dairy and Products

Annual

2004

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Report Highlights:

Milk production in Peru continues increasing and is estimated to reach 1.285 MMT in CY 2004. Milk production is forecast at 1.325 MMT in CY 2005. Whole powder milk imports are forecast to remain steady at 6,000 MT, while nonfat dry milk imports continue its downward trend and are forecast at 6,000 MT in CY 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Lima [PE1]
[PE]

Executive Summary

Fluid milk production in Peru continues increasing and is estimated to reach 1.285 Million Metric Tons in 2004, increasing 4.4 percent compared to the previous year, and is forecast to reach 1.325 MMT in CY 2005. Whole powder milk imports are forecast to remain steady at 6,000 MT in CY 2005, while imports of nonfat dry milk continue its downward trend and are forecast at 6,000 MT for 2005.

Industry's demand for raw milk continues increasing as processing plants, which have been investing in better technology and enhancing their processing capacity, now begin to export evaporated milk. The government also plays an important role purchasing milk directly from producers for its social assistance programs; in fact the GOP pays the higher price in the market.

| PSD Table | | | | | | | |
|--------------------------------|-----------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|-------------|
| Country | Peru | | | | | | |
| Commodity | Dairy, Milk, Fluid | | | | (1000 HEAD)(10 00 MT) | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 01/2003 | | 01/2004 | | 01/2005 | MM/YYYY |
| Cows In Milk | 620 | 630 | 623 | 650 | 0 | 660 | (1000 HEAD) |
| Cows Milk Production | 1250 | 1226 | 1280 | 1280 | 0 | 1320 | (1000 MT) |
| Other Milk Production | 5 | 5 | 5 | 5 | 0 | 5 | (1000 MT) |
| TOTAL Production | 1255 | 1231 | 1285 | 1285 | 0 | 1325 | (1000 MT) |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL SUPPLY | 1255 | 1231 | 1285 | 1285 | 0 | 1325 | (1000 MT) |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Fluid Use Dom. Consum. | 715 | 715 | 705 | 650 | 0 | 675 | (1000 MT) |
| Factory Use Consum. | 535 | 511 | 575 | 630 | 0 | 645 | (1000 MT) |
| Feed Use Dom. Consum. | 5 | 5 | 5 | 5 | 0 | 5 | (1000 MT) |
| TOTAL Dom. Consumption | 1255 | 1231 | 1285 | 1285 | 0 | 1325 | (1000 MT) |
| TOTAL DISTRIBUTION | 1255 | 1231 | 1285 | 1285 | 0 | 1325 | (1000 MT) |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |

| PSD Table | | | | | | | |
|--------------------------------|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| Country | Peru | | | | | | |
| Commodity | Dairy, Milk, Nonfat Dry | | | | (1000 MT) | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 01/2003 | | 01/2004 | | 01/2005 | MM/YYYY |
| Beginning Stocks | 1 | 1 | 1 | 1 | 1 | 1 | (1000 MT) |
| Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Imports | 9 | 9 | 8 | 8 | 0 | 6 | (1000 MT) |
| TOTAL Imports | 9 | 9 | 8 | 8 | 0 | 6 | (1000 MT) |
| TOTAL SUPPLY | 10 | 10 | 9 | 9 | 1 | 7 | (1000 MT) |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Human Dom. Consumption | 9 | 9 | 8 | 8 | 0 | 6 | (1000 MT) |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Dom. Consumption | 9 | 9 | 8 | 8 | 0 | 6 | (1000 MT) |
| TOTAL Use | 9 | 9 | 8 | 8 | 0 | 6 | (1000 MT) |
| Ending Stocks | 1 | 1 | 1 | 1 | 0 | 1 | (1000 MT) |
| TOTAL DISTRIBUTION | 10 | 10 | 9 | 9 | 0 | 7 | (1000 MT) |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |

| | |
|----------------------------|-------------------------|
| Import Trade Matrix | |
| Country | Peru |
| Commodity | Dairy, Milk, Nonfat Dry |
| Time Period | CY 2003 |
| Imports for: | |
| U.S. | 29 |
| Others | |
| New Zealand | 2816 |
| Australia | 1787 |
| UK | 720 |
| Argentina | 434 |
| | |
| Total for Others | 5757 |
| Others not Listed | 500 |
| Grand Total | 6286 |

Units: Metric Tons

| PSD Table | | | | | | | |
|--------------------------------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
| Country | Peru | | | | | | |
| Commodity | Dairy, Dry Whole Milk Powder | | | | (1000 MT) | | |
| | 2003 | Revised | 2004 | Estimate | 2005 | Forecast | UOM |
| | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | USDA Official [Old] | Post Estimate [New] | |
| Market Year Begin | | 01/2003 | | 01/2004 | | 01/2005 | MM/YYYY |
| Beginning Stocks | 2 | 2 | 1 | 1 | 1 | 1 | (1000 MT) |
| Production | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Imports | 8 | 8 | 6 | 6 | 0 | 6 | (1000 MT) |
| TOTAL Imports | 8 | 8 | 6 | 6 | 0 | 6 | (1000 MT) |
| TOTAL SUPPLY | 10 | 10 | 7 | 7 | 1 | 7 | (1000 MT) |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Human Dom. Consumption | 9 | 9 | 6 | 6 | 0 | 6 | (1000 MT) |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Dom. Consumption | 9 | 9 | 6 | 6 | 0 | 6 | (1000 MT) |
| TOTAL Use | 9 | 9 | 6 | 6 | 0 | 6 | (1000 MT) |
| Ending Stocks | 1 | 1 | 1 | 1 | 0 | 1 | (1000 MT) |
| TOTAL DISTRIBUTION | 10 | 10 | 7 | 7 | 0 | 7 | (1000 MT) |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |

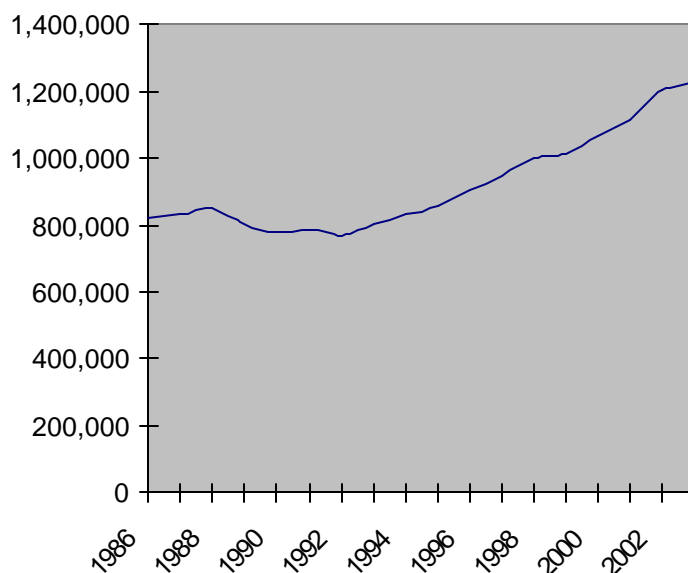
| | |
|----------------------------|------------------------------|
| Import Trade Matrix | |
| Country | Peru |
| Commodity | Dairy, Dry Whole Milk Powder |
| Time Period | CY 2003 |
| Imports for: | |
| U.S. | 0 |
| Others | |
| Bolivia | 3802 |
| New Zealand | 533 |
| Australia | 482 |
| Argentina | 311 |
| | |
| Total for Others | 5128 |
| Others not Listed | 462 |
| Grand Total | 5590 |

Units: Metric Tons

Production

Fluid milk production is forecast to increase 2.8 percent to 1.325 Million Metric Tons in 2005. Processing plants have invested in technology increasing capacity and efficiency. Demand for raw milk continues to rise, making milk production one of the few profitable business in the agricultural sector. In the past five years, several rather large dairy farms have been founded, many of them are owned by investors that do not have a farming background but consider this sector a promising business.

Peru has three major dairy producing areas. Arequipa in the south, Cajamarca in the northeast region and Lima on the coast. Arequipa, which accounts for about 22 percent of milk production in Peru, is 1,000 kilometers south of Lima, and has very good quality forage, mainly alfalfa. Gloria, the largest milk processing plant in Peru, buys most of the production. Cajamarca in the northern highlands is an excellent dairy area due to the availability plant in this area, it accounts for 17 percent of total milk production. Lima is important due to its proximity to eight million consumers, but the lack of forage is the limiting factor for milk production in this area. Dairy cows in Lima are feed fed which is rather expensive. Lima accounts for about 16 percent of total milk production.



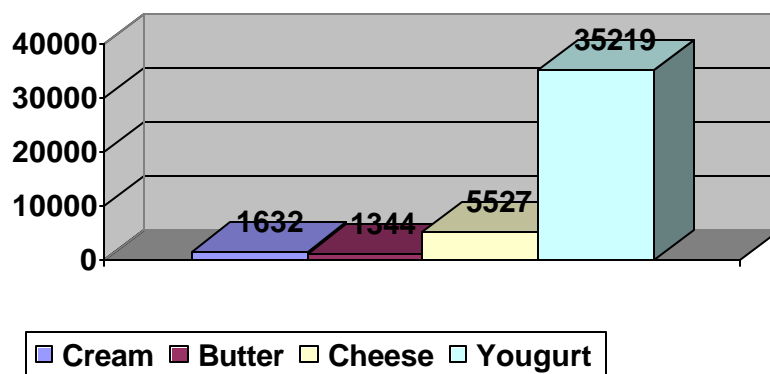
Some milk processing plants provide technical support programs to producers. Most of them work with farmers on feeding, forage management, breeding and quality control to increase the amount of milk produced by their suppliers. Moreover, some processors are now giving price bonuses to producers for tuberculosis and brucellosis control, for belonging to the national dairy control program (dairy control system supervised by the Ministry of Agriculture), for each tenth of a percent of fat over 3.2 percent, and for the volume of milk delivered.

Herd size and level of technology vary greatly even in the same area, there is no such thing as the "average" dairy producer. There are a few that are highly sophisticated in their management. They have complex feeding programs and use artificial insemination. Even among these "modern" dairymen, embryo transplant is not commonly used. It is still too expensive compared to AI.

Most dairy producers though, especially in the highlands, are not that technical. Their herd may range from two or three cows to 30 or 40. AI is not that popular among these producers, only around 20 percent. This type of producers receives technical assistance from the processing plants and also from the Ministry of Agriculture. Feeding programs are based on natural pastures or, in some cases, improved grasses.

Production of Dairy Products in 2003

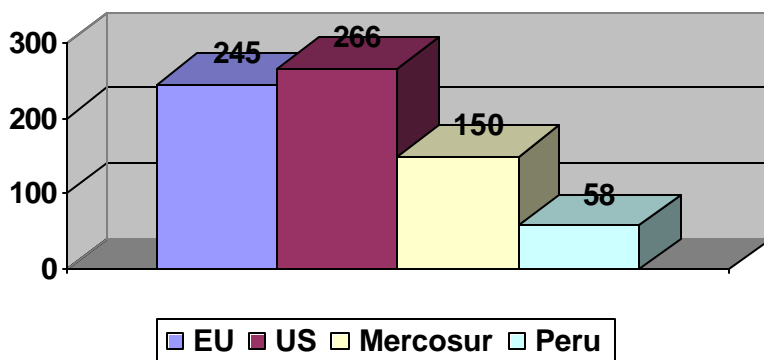
Metric Tons



Consumption

Milk consumption in Peru is only 58 liters per capita per annum, not even half of the minimum consumption recommended by the United Nations Food and Agriculture Organization. Due to difficulties to keep the cold chain, evaporated milk is the most popular way in which milk is consumed in Peru, about 75 percent of the market. This form of milk has several advantages, the most important being durability and conservation. Since it does not need refrigeration, it lasts longer, especially in the poor areas of the country.

Per Capita Milk Consumption (Kilogram/year)



Gloria, the largest processing plant, holds 78 percent of the evaporated milk market and 60 percent of the total milk market. UHT milk is becoming popular but, due to its higher price, only by the higher economic consumers in the country. Dairy processors state that the high

price of UHT is mainly caused by the high price of the package, which is sold by a monopoly (Tetrapack). Depending on a single supplier also concerns the processors.

The industry's investment in 2004, is estimated total \$20 million. This investment is mainly directed at implementing cooling stations and increasing processing capacity.

Trade

With 2,816 MT, New Zealand was the largest non fat milk supplier to be Peru in 2003. Bolivia was the largest whole milk powder supplier in 2003, with 3,802 MT. Pil, a dairy processing company owned by the Peruvian Gloria, does Bolivia's whole milk powder exports to Peru.

Dairy products are assessed 25 percent import duty plus a value added tax of 19 percent. Since the GOP considers dairy products as "sensitive products" they are subject to a variable levy, which is related to international prices. The price band effectively sets a minimum price for imported dairy products. Since international prices have been increasing in recent years, dairy processors have replaced imported powder milk with local production.

Recently, Peru has began to export evaporated milk. Peru exported 20,059 MT of evaporated milk in CY 2003. The main foreign markets for Peruvian evaporated milk are Haiti (8,430 MT), Bolivia (3,354 MT) and Chile (1,066 MT).

Butter imports in CY 2003, totaled 353 MT. Argentina and Bolivia were the main suppliers with 105 MT and 133 MT respectively. Cheese imports were 1,435 MT in CY 2003. Argentina led the market with 474 MT, followed by Bolivia with 271 MT and New Zealand with 144 MT. The U.S. exported 104 MT of cheese in CY 2003.

Policy

The GOP has an import substitution policy by which it encourages local production of the agricultural products that are currently being imported. There are no resources allocated to this program, but the government encourages local production by two venues: high import tariffs (surcharges and variable levy) and granting tax benefits to producers. The GOP expects to reach self-sufficiency by 2005. The government is promoting local milk production through social assistance programs, by purchasing milk directly from producers. Currently these programs purchase about 50,000 MT of fresh milk per day. These programs are also a way to create a reference price for producers

Peru has recently negotiated a free trade agreement with MERCOSUR, which has not been signed yet. This agreement has found a strong opposition from Peruvian dairy producers and processors who fear that Argentine or Uruguayan products may flood the market. They argue that they have invested around \$80 million since 1995 and that all that investment may be at risk if the government signs the agreement without taking provisions to protect the local industry.

Marketing

The milk market in Peru is concentrated in two large firms, Gloria, which also owns three processing plants in Bolivia and Dean Foods in Puerto Rico, and Nestle. There are a few smaller companies that are also in the market, in most cases they help to negotiate prices with the larger companies. The government, through the social assistance programs, is an important customer. In fact the government is paying the highest price in the market.

Traditional cheese-makers (queseros) usually pay high prices for milk and, though they are very small individually, have helped keep the dairy business afloat in poor areas.

As the Peruvian dairy industry continues growing, it will generate business opportunities for U.S. genetics, especially semen. Livestock is thought as a way of savings, most families in the highlands will try to have at least two cows to provide milk for the family and sell whatever surplus they may have and at least a calf that they can sell in case of emergency. This type of producer purchases its cattle from larger producers in the area who at the same time buy from larger producers, thus creating a cattle market that "percolate" genetics and quality from top to bottom.